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UNCLAS SECTION 01 OF 05 MAPUTO 000388

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EMBASSY HARARE FOR BILL WEISSMAN - PLEASE PASS TO VISITING

HIRC STAFFERS CHAKA AND MARSH

E.O. 12958: N/A

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SUBJECT: MOZAMBIQUE: SCENESETTER FOR VISIT OF STAFFDEL

FLYNN AND STAFFDEL CHAKA, MARCH 23-29

1. (SBU) Introduction and Summary: Your visit to Mozambique will provide you an opportunity to gain a better understanding of issues surrounding port and coastal security in Mozambique, as well as insight into Mozambique's Millennium Challenge Account (MCA) proposal. The trip will also give you information on the 2004 general elections, the economy, and enable you to learn more from public and private sector interlocutors about key challenges facing the incoming Guebuza government, including fighting corruption, combating HIV/AIDS and trying to influence neighboring Zimbabwe on its parliamentary elections on March 31. End Introduction and Summary.

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COASTAL AND PORT SECURITY  
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2. (U) Mozambique at present has very little ability to secure its 2,500 kilometer long coast (twice the length of California's). The Mozambican navy consists of a 500-person force that patrols only on land, since it has no operating vessels. In the fall of 2004 the French donated two small patrol boats with 80 hp engines each, suitable for harbor or near-shore patrols, at a cost of approximately USD 80,000. However the boats have remained tied at the dock, unused because the Navy has not found funding to pay for fuel.

3. (SBU) What little water-borne patrolling that does occur is carried out SADC's Monitoring, Control and Surveillance (MCS) vessels, which occasionally patrol the fishing waters off Namibia and Mozambique. The MCS program is jointly funded by the South African Ministry of Fisheries and the European Union. In March 2004 an MCS vessel, the "Eagle Star," arrested an Indonesian-registered and PRC-registered vessel off Beira, Mozambique and confiscated the vessels catch, after it was discovered they were using illegal "wall of death" fishing nets.

4. (SBU) Post has sought boats, though without success, through the DOD excess defense articles program to help equip the Mozambique navy. In the interim, though, we believe it could be more effective to fund the the MCS program above, so that it could expand its operations.

5. (SBU) All three of Mozambique's principal ports - Maputo, Beira and Nacala - are in compliance with the International Maritime Organization's International Ship and Port Facility Security (ISPS) Code.

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MILLENNIUM CHALLENGE ACCOUNT  
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6. (SBU) MCA: Millennium Challenge Corporation (MCC) representatives have visited Mozambique on four occasions since Mozambique was selected as part of the first group of 16 eligible countries in May 2004, with MCC CEO Applegarth visiting in October. The MCC's most recent visit, by a technical team, ended March 23. Mozambique submitted a concept paper to the MCC in late September that is focused on the private sector and the northern region. The government entrusted the CTA, a confederation of business associations and also the private sector representative on Mozambique's MCA Technical Group, with the responsibility for drafting Mozambique's concept paper. Although the CTA and the Mozambique-US Chamber of Commerce have circulated the concept paper widely, the government has not yet officially released it. There has been some press coverage, particularly around the MCC visits, but as yet no in-depth presentation and analysis of the concept paper by the media. The MCC provided feedback on Mozambique's concept paper in late November, and a dialogue has been developing since then. As a result of the latest visit, the technical team is refining the proposal to focus on water, sanitation, roads, technical assistance, and financing to support tourism, agricultural processing and the timber industry.

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FRELIMO DOMINATES POLITICS  
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7. (SBU) Mozambique is a post-conflict success story. Since the signing of the 1992 Rome Peace Accord, which ended sixteen years of civil war, Mozambique has made significant progress as a young, multi-party democracy. FRELIMO led the

independence struggle and has been the ruling party in Mozambique since Portuguese colonial rule ended in 1975. FRELIMO's military opponent during the subsequent civil war, RENAMO, has been the main opposition party since the first presidential and legislative elections were held in 1994. In November 2003 municipal elections resulted in a major win for FRELIMO and were generally regarded as free and fair. The following year, in December 2004, Mozambique held its third presidential and legislative elections. Guebuza won the presidency by a wide margin, defeating perennial RENAMO candidate and RENAMO president Afonso Dhlakama. FRELIMO won the majority of seats in the National Assembly, too. Although the elections were marred by regularities, these were not significant enough to affect the outcome of the presidential election nor alter the final tally in the National Assembly by more than two or three seats out of the Assembly's 250. Guebuza was sworn in as President on February 2, 2005, and announced most of his cabinet the next day.

18. (SBU) Voter turnout in the December 2004 election was a disappointing 40-45 percent, down substantially from the nearly 75 percent turnout in 1999. Although slightly fewer FRELIMO voters cast their ballots than did so in 1999, about half of former RENAMO supporters did not vote. Some analysts explain the poor RENAMO showing by saying that Dhlakama began campaigning too late, only in the last several months of 2004, while Guebuza had been crisscrossing the country since 2002. And some believe many RENAMO backers may have felt cheated in the very close 1999 election and therefore cynically saw little point in participating. Several local, regional, and international observer groups, including the Carter Center, monitored the elections. The Presidency of the European Union declared that the elections were carried out in a "generally successful and peaceful" manner, and "broadly conducted along the lines of internationally established standards." However, the EU noted that there were irregularities and publicly stated that they should be investigated and resolved in accordance with the law. The Carter Center made similar statements, though they were more forceful in their criticism of the National Elections Commission's administration of the elections and the subsequent lack of transparency in the tabulation phases. All agreed, nonetheless, that final results broadly reflected the will of voters. An independent parallel vote count that USAID helped support tracked very closely with the results announced by the government.

19. (SBU) FRELIMO has returned to the National Assembly in March with a strong showing -- 160 out of 250 seats ) up from its previous 133 and just seven short of a two-thirds majority. RENAMO won 84 seats and an allied coalition of small parties took the remaining six. Recent press reports indicate several of these small party deputies will distance themselves from RENAMO. RENAMO's unexpectedly poor showing has led to disarray within the party, and Dhlakama's leadership is being called into question by some.

#### ----- GUEBUZA AND HIS CABINET -----

10. (SBU) Although Guebuza reportedly is more nationalistic and less flexible than Chissano, he has indicated recently that, at least in the near term, he will continue policies of his predecessor, Joaquim Chissano. During Guebuza's trip to the United States in July, where he attended the Democratic National Convention and met with U.S. officials, Guebuza repeatedly said he favored maintaining a strong Mozambique-U.S. relationship and stressed that he wanted to work closely with donors and international financial institutions (IFIs). Both the IMF and World Bank are very active in Mozambique, and the GRM's economic policies -- particularly its poverty reduction strategy -- adhere to guidelines set out by both institutions. A wealthy businessman himself, largely the result of his party and government positions, Guebuza has a good understanding of business and economic concerns and strong ties to the private sector. On occasion Guebuza has called for the "Mozambicanization" of businesses, which has sparked some concern among foreign investors -- both existing and potential. Just what he means by this, apart from the clear intent to provide more jobs for Mozambicans, is not yet obvious. He comes across as serious, intelligent, and disciplined.

11. (SBU) President Guebuza has moved swiftly to set up his cabinet; he named most of its members one day into his presidency. We understand that the highest FRELIMO party body, the Political Commission (15 members), vetted his choices and that former President Chissano (who is on the Commission) may have insisted on some names; more accurately, then, the cabinet is both Guebuza's and FRELIMO's. The cabinet members, according to press reports, in the main are leaders who will push forward Guebuza's wishes rather than technocrats, stalwarts in FRELIMO, and many have moved up from positions as provincial governors. Analysts stress that

the latter attribute demonstrates that Guebuza is serious about economic development in outlying areas of the country -- a central theme in his inaugural address. The lead commercial association in Mozambique is optimistic that Guebuza will be more pro-business than Chissano was. There are some important holdovers from the Chissano administration -- Prime Minister Luisa Diogo, Defense Minister Tobais Dai, and veteran Minister in the Presidency for Diplomatic Affairs Francisco Madeira. One surprise appointment is that of Alcinda Abreu, FRELIMO's 2004 general elections campaign manager, as Foreign Minister. Although considered talented and energetic, she was trained as a psychologist and has worked on social welfare and women's issues; she faces a steep learning curve. Some believe that Madeira will be the lead advisor for President Guebuza on foreign affairs, at least in the near future.

¶12. (U) Guebuza has appointed a total of 26 ministers and 15 vice ministers; 11 of them are women (seven ministers and four vice ministers). This compares with a government of 24 ministers and 18 vice ministers under Chissano, eight of whom (three ministers and five vice ministers) were women.

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ECONOMIC AFFAIRS  
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¶13. (U) Mozambique's macroeconomic reforms and success in attracting large investment projects have given the country an average GDP growth rate of eight percent from 1994 (two years after its devastating civil war ended) through 2004, the highest in Africa over this time period. This growth is from a very low base; per capita GNP for 2004 is projected only at around USD 290. Foreign direct investment, exports, and revenue collections all have seen notable increases, and the government continues to privatize state firms, albeit at a slower pace than in the late 1990's. Mozambique's mega-projects, such as the MOZAL aluminum smelter (an Australian investment) and the newly inaugurated SASOL gas pipeline (South African), account for two-three percentage points of the country's GDP growth and dominate its exports. Several other mega-projects -- a coal mine to be operated by a Brazilian firm in Tete province and two alluvial heavy metal mines -- are in the beginning stages of development. Guebuza welcomes such investment, but has expressed concern that Mozambique needs to rapidly develop small and medium-size businesses, both for jobs and to foster the growth of a managerial class of native Mozambicans.

¶14. (U) Over the past decade, the government has followed IMF and World Bank guidelines on economic issues. The inflation rate for 2004 was around 11 percent, in line with the levels of recent years. The USG has forgiven all of Mozambique's debt - USD 151 million - with the final USD 50 million forgiven in 2002 as part of Mozambique's HIPC initiative relief. The government depends on foreign donors to finance half of its budget, a dependency likely to continue for some time even as the economy continues to grow.

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INVESTMENT CLIMATE  
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¶15. (SBU) The Mozambican business climate is improving, but still has a long way to go to meet Western standards. Generally sound macroeconomic policies and a high-level commitment to attracting business mask a bureaucracy that remains at times unresponsive to the needs of the private sector, especially small-to-medium-sized enterprises. Obtaining permits takes time, corruption is problematic, and the legal system is antiquated and cumbersome. Although revisions are being considered, the labor law remains extremely inflexible and an impediment to foreign investment. Land tenure is granted through leases covering land use; the Mozambican constitution invests ownership of all national territory in the State. Donors, including USAID, are working extensively with the GRM to modernize and improve the commercial code, labor law, business registration process, tax system, and land ownership policy. Although reform is moving in the right direction, Mozambique still rates as 'mediocre' on many economic and investment competitiveness indicators. Mozambique's road network is quite limited and in poor condition along many stretches, although major repair work is underway. Much of the countryside lacks electricity.

¶16. (U) Mozambique offers substantial investment and commercial opportunities in energy generation (hydropower, coal, and gas), transportation (road construction, rail and port services, airport construction, and air transport), resource extraction (natural gas, minerals, timber, and fishing), aquaculture, agriculture/horticulture (cereals, cashews, cotton, sugar, vegetables, flowers, and citrus; light industry), and tourism. The GRM has been very responsive to large-scale investors, and has created several "special economic zones" and "export processing zones," some located in poor and under-developed areas. In December 2004, the government of Mozambique ratified the U.S.-Mozambique Bilateral Investment Treaty (BIT) that was signed in 1998 and

ratified by the U.S. in 2001. The Treaty entered into force on March 3, 2005.

17. (SBU) US trade with and investment in Mozambique remains small. In eleven months of 2004, the US imported USD 10 million in goods (mainly seafood, garments, cashews) and exported USD 49 million in products (wheat, corn, tractors, milk products) to Mozambique. Investments from the U.S. in 2004 totaled slightly less than USD one million (compared to USD 60 million from South Africa). Currently only one apparel company in Mozambique is exporting to the U.S. under AGOA. The BIT may provide new incentive for increasing bilateral investment, but Mozambique must address a number of the constraints mentioned in para 15 for business to improve rapidly.

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KEY CHALLENGES FOR THE GUEBUZA GOVERNMENT  
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18. (SBU) Combating Corruption: President Guebuza made combating corruption a key theme of his successful presidential campaign last fall, and has often, since his election, repeated that his government will fight corruption. However, corruption has been and remains a prominent feature of Mozambican society, both petty and high-level. In 2001 the Chissano government set up the Anti-Corruption Unit (ACU) in the Attorney General's office, funded mainly with USG assistance monies. Since then the ACU has indicted several dozen persons, but all of the indictments have been dismissed by the courts. In mid-March Attorney General Madeira was heavily criticized by representatives in Parliament for his annual report. They pointed to the dismissals of the cases of those indicted by the ACU and said his report contained little information on any progress toward resolving several other high profile cases. We intend to continue funding the ACU, but will stress that indictments must lead to trials.

19. (U) HIV/AIDS: Mozambique is at a critical stage in its efforts to stem the HIV/AIDS epidemic. HIV/AIDS prevalence in Mozambique has risen from 3.3 percent of adults in 1992 to almost 15 percent in 2004. The central region is worst affected, with an estimated prevalence of 35 percent in urban areas of Sofala province. Some 1,400,000 adults (15-49) are currently living with HIV/AIDS, but only 5,600 are on ARVS. The estimated number of AIDS orphans in Mozambique is 273,000. Challenges include current rates of high-risk behavior, the low age of sexual debut, multiple partners, and low use of condoms in high-risk encounters. The Mission has made considerable efforts to ensure that the President's Emergency Plan For AIDS Relief is seen as a collaborative approach to addressing the epidemic by working closely with the government, other donors, and domestic and international NGOs. Under the first full year of the Emergency Plan implementation, U.S. agencies supported anti-retroviral treatment for approximately 5,000 Mozambicans.

20. (U) Mozambique is one of 15 priority countries under the President's Emergency Plan for AIDS Relief. The Emergency Plan will provide approximately USD 48 million for our 2005 Country Operational Plan (COP), up from USD 25.5 million for the 2004 COP. All agencies at post, including State, USAID, CDC, the Peace Corps, and Defense, are part of our effort, and we make sure to mention in every public speaking opportunity the urgency of fighting HIV/AIDS. In his Washington visit last July, Guebuza acknowledged the extensive U.S. commitment to helping Mozambique combat the disease and its effects. In the government's five year plan, now before Parliament for approval, it plans to transform its fight against HIV/AIDS into a "national emergency."

21. (SBU) Nyati Beach Lodge: The ongoing Nyati Beach Lodge legal conflict involving an OPIC-supported American businessman offers a prime example of why Mozambique remains an unstable environment for potential investors. The upscale Vilanculos-area resort is the subject of competing land claims between the American, whose investment group was issued rights to the Nyati lands in 2003, and a Zimbabwean firm with an apparently shaky claim dating from the mid-1990s. In 2004 a provincial judge found in favor of the Zimbabwean, which led to the American's eviction from the lodge on January 6, 2005. Subsequently the Mozambican Supreme Court ordered the suspension of the eviction order, and police left the lodge, but the provincial judge has refused to enforce the order in a way that would force police to remove the Zimbabwean. The American is hoping to pressure the new government to evict the Zimbabweans based on the Supreme Court's order, and is also hoping the Supreme Court will reverse the lower court's decision that favors their claim. Over the past several months, the Embassy has contacted many high-level officials about the Nyati situation.

22. (SBU) Peacekeeping: During his Presidency of the African Union (AU), President Chissano was actively engaged on broader African issues and sought to use his AU Presidency both to build stronger African institutions and to find

African-led solutions to Africa's problems. Mozambique's participation in the AU's peacekeeping operations in Burundi is one such example. Post is working to assist the Mozambican military in further developing its peacekeeping capacity the African Contingency Operations and Training Assistance (ACOTA) program.

123. (SBU) Zimbabwe: Despite the support for the AU peacekeeping efforts, the GRM has been hesitant to point the finger at other African governments over human rights violations and has historically abstained from voting on any such resolutions, including the recent EU resolution on human rights violations in Darfur. Late last year, Mozambique also voted in favor of non-action motions on the UN human rights resolutions for Sudan and Zimbabwe. GRM officials state that Mozambique, instead of criticizing actions, prefers to focus on what can be done to address such issues within the regional institutions (e.g., the AU). Mozambique, under Chissano, was particularly hesitant to engage on Zimbabwe, due to the close historical and personal ties between the countries and their leaders. In his meeting with State Department officials when he visited Washington in July 2004, Guebuza took a similar line on Zimbabwe. The GRM officials tell us that they are pushing Zimbabwe to hold free and fair parliamentary elections on March 31, although the pushing is behind closed doors. We are urging the GRM, through the regional body SADC, at a minimum to publicly give a frank assessment of the merits and demerits of the election once it is held, as a way to pressure the Mugabe regime to behave more responsibly.

LALIME